



DEPARTMENT OF DEFENSE

AUDIT REPORT

DOD HOTLINE ALLEGATION OF OVERPRICING
OF F-15 SPARE PARTS

No. 90-101

August 15, 1990

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

AUG 15 1990

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)**

**SUBJECT: DoD Hotline Allegation of Overpricing of F-15 Spare
Parts (Report No.90-101)**

This is the final report on the Audit of the DoD Hotline Allegation of Overpricing of F-15 Spare Parts, for your information and use. We made the audit from August through December 1989 in response to a hotline allegation that F-15 spare parts were being purchased at inflated prices. The initial objective of the audit was to determine whether the DoD paid fair and reasonable prices for initial spare parts for the F-15 Aircraft Tactical Electronic Warfare System Intermediate Support System (TISS) procured from the Military Avionics Division of Honeywell, Inc., a subcontractor of McDonnell Aircraft Company. During the audit, we expanded our scope to include a review of components purchased on the production contracts for the TISS. We also evaluated whether adequate internal controls were in place for the procurement of TISS initial spare parts and the complete production. We reviewed TISS contracts with a value of \$278.2 million for full-scale development, production, and initial spare parts.

The audit showed that the hotline allegation had merit because the Air Force did not comply with the Defense Federal Acquisition Regulation Supplement (DFARS) and Air Force regulations regarding breakout analyses. We assessed internal controls that focused on determining compliance with the DFARS and Air Force regulations. Air Force personnel had not performed a required breakout review on the TISS procurement of the initial spare parts or the production contract. Lack of a breakout review resulted in inflated spare part prices proposed to the U.S. Government. The results of the audit are summarized in the following paragraphs, and the finding, together with the audit recommendations and management comments are in Part II of this report.

The DoD did not receive fair and reasonable prices on initial spare parts for the F-15's TISS and may have paid too much for components on the production contract for the same system. As a result of our audit and the stop work orders issued by the Air Force, DoD can avoid as much as \$12.3 million of overpricing by breaking out initial spare parts. We recommended that the Air Force Logistics Command (AFLC) require the F-15 System Program Manager (SPM) to perform the mandatory initial spare parts breakout analysis for the TISS initial spare parts before the negotiation of contracts for certain initial spare

parts. We recommended that the Air Force Systems Command (AFSC) require the F-15 System Program Office (SPO) to perform the mandatory breakout analysis for TISS production procurements before negotiation of follow on production contracts. We recommended that the AFLC require the F-15 SPM to report to AFLC on the outcome of all required initial spare parts breakout analyses or the rationale for not performing analyses. Before the negotiation of contracts for certain procurements, the AFSC should require the F-15 SPO to report to AFSC on the outcome of all required component breakout analyses or the rationale for not performing analyses; and contingent on a judgment (whether the Government should pay for overhead charged to a no value added item) from the Armed Services Board of Contract Appeals that is favorable to the Government, the Air Force should recover any resultant overcharges that have been paid (via TISS or any other contract or subcontract) to Honeywell (page 5).

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not established or effective to ensure the performance of spare part or production component breakout analyses. Therefore, the senior officials responsible for internal controls within the Air Force will be provided a copy of this report. Recommendations 1. and 3. made in Part II of this report, if implemented, will correct the weaknesses. We have determined that the monetary benefits that can be realized by implementing Recommendation 1. are \$12.3 million. We could not determine the monetary benefits to be realized by implementing Recommendations 2. and 3.

On March 15, 1990, a draft of this report was provided to the Assistant Secretary of the Air Force (Financial Management and Comptroller). Comments were received from the Principal Deputy Assistant Secretary of the Air Force (Acquisition) on May 17, 1990 (see Appendix D).

The Principal Deputy Assistant Secretary of the Air Force (Acquisition), nonconcurred with Recommendations 1.a. and 3.a. in the draft report, to report to Command on the outcome of breakout analyses. The Air Force stated, "The System Program Manager is charged with the responsibility for performing and documenting the required analyses, and this requirement, if followed, is sufficient." We believe the recommendations are still warranted for reasons discussed in Part II of the report. However, based on the Air Force's comments, we directed Recommendations 1. and 3. to the Commander, Warner Robins Air Logistics Center and the Tactical/Airlift Program Executive Officer, respectively. Accordingly, we request that the Air Force provide comments on Recommendations 1. and 3.

The Air Force concurred with Recommendations 1.b. and 3.b., and we consider its comments to be responsive. However, the comments did not provide an estimated date for completion of

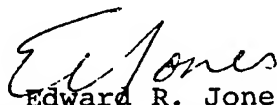
planned actions related to Recommendation 1.b.; therefore, we ask that the Air Force provide the date in response to the final report.

The Air Force did not concur with Recommendation 2. regarding the use of reopener clauses. The Air Force stated, "Adding a savings clause does not provide the Government with any protection not already included in the CAS [Cost Accounting Standard] clauses (FAR [Federal Acquisition Regulation] 52.230-3 through 52.230-6)." On the basis of Air Force's comments, we have revised Recommendation 2. in the final report, and we ask that the Air Force respond to the revised recommendation.

The Air Force neither concurred nor nonconcurred with draft report potential monetary benefits resulting from the audit. Consequently, the comments did not fulfill the requirements of DoD Directive 7650.3. The Air Force stated that ". . . we cannot concur/nonconcur based on the limited information available in the draft report." Our draft report contained detailed narrative and charts on how the potential monetary benefits were computed. In order for your comments to be considered responsive, you must state concurrence or nonconcurrence with the estimated monetary benefits, identified in Appendix E, of \$12.3 million. If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Potential monetary benefits are subject to resolution in the event of nonconcurrence or failure to comment. Also, the Air Force did not comment on the internal control weaknesses. Therefore, we ask that the Air Force state its position on the internal control weaknesses in responding to the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. In order to comply with this Directive, we request that comments on the final report be provided within 60 days of the date of this report.

The courtesies extended to the staff during the audit are greatly appreciated. The audit team members are listed in Appendix G. Copies of the final report will be distributed to the activities listed in Appendix H. If you desire to discuss this final report, please contact Mr. Paul J. Granetto, Program Director, at (202) 693-0573, AUTOVON 223-0573, or Mr. James Peterson, Project Manager, at (202) 693-0594, AUTOVON 223-0594.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:
Secretary of the Air Force

REPORT ON THE AUDIT OF DOD HOTLINE
ALLEGATION OF OVERPRICING OF F-15 SPARE PARTS

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Prepared by:
Contract Management Directorate
Project No. 9CD-8007

REPORT ON THE AUDIT OF DOD HOTLINE ALLEGATION OF
OVERPRICING OF F-15 SPARE PARTS

PART I - INTRODUCTION

Background

The audit was initiated because of an allegation made to the Department of Defense Hotline on June 15, 1989. The complainant alleged that McDonnell Aircraft Company (McDonnell) was purchasing initial spare parts for the F-15 Aircraft Tactical Electronic Warfare System Intermediate Support System (TISS) through its subcontractor, Military Avionics Division, Honeywell, Inc. (Honeywell), and that Honeywell was just a "pass-through" point that did no work on the spare parts, but inflated the price by 3 to 4 times the actual cost.

The TISS is a state-of-the-art ground support system for the F-15 Aircraft Tactical Electronic Warfare System (TEWS). TISS is being procured from McDonnell as a replacement for the TEWS Intermediate Test Equipment ground support system. TISS is capable of supporting the existing and the new generation of TEWS required by the F-15E Aircraft.

The initial spare parts required to support the TISS were determined by the San Antonio Air Logistics Center's (ALC) Automatic Test Systems Program Management Division. Subsequent to the quantification of initial spare parts requirements, the Systems Program Manager (SPM) at Warner Robins ALC (Warner Robins) was responsible for issuing the provisioned item orders (unpriced orders issued under a contract that sets forth the Government's requirements for provisioned items).

Warner Robins was responsible for procuring all the initial spare parts for the F-15 ground support equipment. This authority was given to Warner Robins by Air Force Logistics Command (AFLC) Regulation 800-9, which sets forth policy and procedures for acquiring initial support of aerospace equipment. Chapter 1, Section 1-2.c of this Regulation states, "Air logistics centers provide proper management to ensure timely provisioning actions are taken during each phase of system/equipment acquisition."

Warner Robins delegated authority to an administrative contracting officer (ACO) at the Naval Plant Representative Office (NAVPRO) at McDonnell Aircraft Company (McDonnell) to definitize and negotiate provisioned item orders established with McDonnell for TISS initial spare parts.

TISS production contracts were the responsibility of the System Program Office (SPO) located at the Aeronautical Systems Division (ASD) of the Air Force Systems Command (AFSC).

In July 1985, ASD modified an existing F-15 production contract with McDonnell to provide the initial funding for the TISS. The modification contained a not-to-exceed ceiling price of \$49 million. McDonnell functioned as the prime U.S. Air Force contractor responsible for development of the TISS and had total systems integration, performance, and configuration management responsibility. McDonnell selected Honeywell to act as the full-scale development subcontractor. Honeywell had previously developed and produced the predecessor to the TISS.

Over the next 3 years, ASD issued additional modifications that funded full-scale development and increased the not-to-exceed ceiling price. On February 28, 1989, ASD definitized all previous modifications with a fixed-price incentive fee contract. This definitization established a ceiling price of \$171.5 million for one prototype and 13 preproduction TISS's and supporting software and a price of \$3.7 million for initial research and development for a total negotiated price of \$175.2 million.

On July 24, 1989, ASD negotiated a firm-fixed price of \$79.2 million with McDonnell for the production of 12 TISS's. Of the \$79.2 million, approximately \$69 million (87 percent) was for Honeywell's effort, which included \$9.5 million in Honeywell profit. The remaining \$10.2 million was for the McDonnell effort, which included approximately \$7.7 million in McDonnell profit.

From January 1, 1985, to June 30, 1989, McDonnell subcontracted about \$175 million in work to Honeywell which included about \$14.9 million was for pass-through parts (Appendix A). Of the \$175 million subcontracted to Honeywell, \$128 million was related to TISS (Appendix B).

Objectives and Scope

The overall audit objective was to determine whether the DoD paid fair and reasonable prices for F-15 TISS spare parts and production components procured from Honeywell, a subcontractor for McDonnell. At first, our scope was limited to auditing initial spare parts for the F-15 TISS. Later, we expanded the scope to include an audit of component parts in the contract for the production of TISS. We expanded the scope because Honeywell stated that the methodology used for computing its prices for the TISS initial spare parts contract was the same methodology used for computing the prices for possible pass-through parts used in the production contract.

We reviewed documentation from FY 1987 through FY 1989 at the Defense Contract Administration Services Region (DCASR), St. Louis, pertaining to ongoing Government litigation against Honeywell's cost accounting practices. We reviewed selected provisioned item orders for the TISS initial spares, supporting audits, and price analyses and technical evaluations at the Naval

Plant Representative Office (NAVPRO) at McDonnell in St. Louis. We reviewed documentation from FY 1986 through FY 1990, concerning initial spare parts, at the Warner Robins ALC, the San Antonio ALC, and the U.S. Air Force's Logistics Support Cadre at McDonnell. We reviewed FY 1988 through FY 1989 audit reports issued by the Defense Contract Audit Agency and FY 1989 price analyses and technical evaluations performed by the Defense Contract Administration Services Plant Representative Office (DCASPRO) at Honeywell. Finally, at ASD, we reviewed FY 1984 through FY 1989 contractual and regulatory documentation relating to the TISS full-scale development and production phases.

This performance audit was conducted at the activities listed in Appendix F from August through December 1989. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. Activities contacted or visited during the audit are at Appendix F.

Internal Controls

Our audit of internal controls focused on determining whether the Air Force was in compliance with the DoD Federal Acquisition Regulation Supplement, the Air Force Systems Command and Air Force Logistics Command regulations, and the Air Force Systems Command Program Directive concerning the performance and documentation of breakout reviews. We found internal control weaknesses that are addressed in the Part II of the report.

Prior Audit Coverage

Our audit Report No. 88-114, "Honeywell Catalog Pricing," was issued on June 30, 1988. The objective of that audit was to determine if the Army's Communications-Electronics Command (CECOM) paid fair and reasonable prices for Decentralized Automated Service Support System spare parts. The audit report disclosed that Honeywell overpriced these spare parts by about \$10.5 million because Honeywell was improperly granted an exemption from submission of certified cost or pricing data. The report also stated that approximately \$5.6 million could have been saved if spare parts were purchased directly from Honeywell's vendors. The report recommended voluntary Honeywell refunds and breakout of future spare part purchases. The Army agreed to seek a voluntary refund.

The need for improvements in the F-15 component breakout program has been recognized in audits since 1976. Our audit Report No. 86-117, "Component Breakout Program for the F-15 Aircraft," August 20, 1986, cites problems similar to those discussed in our current audit. The objective of the audit was to determine if the F-15 System Program Office (SPO) performed a comprehensive breakout review in accordance with the Federal Acquisition Regulation. The report disclosed that the SPO did not develop

and maintain an accurate list of candidates for breakout; update and document technical assessments from in-house engineers; obtain price quotes from subvendors before deferral decisions; initiate actions to overcome excessive administrative and production lead times; and adequately document breakout decisions. The report recommended that the SPO break out 52 F-15 parts with anticipated requirements totaling about \$63.4 million and maintain accurate and complete documentation of breakout candidates and breakout decisions. TISS was not included in that audit.

The Air Force stated that the 52 parts identified in the report would be reviewed during the F-15 SPO's review effort addressing FY 1988 breakout items. The F-15 SPO also agreed to implement procedures in conjunction with McDonnell to maintain an accurate and complete list of subvendor numbers. It also stated that in the future, component breakout reviews would utilize a procedure that converted specific numbers to vendor part numbers; technical assessments were being updated during its breakout review effort and would be kept current on an annual basis; and the F-15 SPO would continue to identify unfavorable breakout conditions, such as standard supply lead times, and take appropriate actions to eliminate them.

Our current audit disclosed that the F-15 SPO had not fully corrected long-standing deficiencies in the F-15 component breakout program. Specifically, a component breakout analysis was not performed, and breakout decisions were not documented.

PART II - FINDING AND RECOMMENDATIONS

Breakout Analysis for the F-15's Tactical Electronic Warfare System Intermediate Support System

FINDING

The DoD did not receive fair and reasonable prices on initial spare parts for the F-15's Tactical Electronic Warfare System Intermediate Support System (TISS) and may have paid too much for the production contract for the same system. The overpricing occurred because neither the System Program Manager nor the System Program Office performed the mandatory breakout reviews of the initial spare parts and the production components on the TISS procurements. Furthermore, because the mandatory component breakout analyses were not performed, the prices charged to the Government were inappropriately subject to the standard cost accounting system of the Military Avionics Division, Honeywell, Inc. (Honeywell). Honeywell's standard cost accounting system, which applied the same production support cost to pass-through or no value added spare parts as is applied to production items, was in noncompliance with accepted Cost Accounting Standards. As a result of our audit and the stop work orders issued by the Air Force, DoD will avoid \$12.3 million of overpricing by breaking out initial spare parts. Further savings are possible from the component breakout review and a favorable Armed Services Board of Contract Appeals decision.

Discussion of Details

Background. The Hotline informant alleged that Honeywell was just a "pass-through" point that performed no work on, i.e., added no value to, the TISS's initial spare parts, but nevertheless added on three to four times the actual costs for the items. This complaint was not the first lodged against Honeywell concerning markups on pass-through or no value added parts. Honeywell and the DoD had discussions concerning large markups on pass-through spare parts as early as 1985.

As of the time of our audit, Honeywell had filed a complaint with the Armed Services Board of Contract Appeals. The complaint arose against a contract for the delivery of electronic test sets, data, spare parts, and related items. Honeywell filed the complaint in response to a "Final Unilateral Decision," by the Administrative Contracting Officer (ACO) which disallowed the application of production support and other general overhead to pass-through parts.

Spare Part Breakout Review. Our audit disclosed that the System Program Manager (SPM) at Warner Robins Air Logistics Center (Warner Robins) did not perform a breakout review on the procurement of the TISS initial spare parts. Also, the office that had been delegated the task of performing the breakout review (the F-15 Logistics Support Cadre (Cadre) assigned by

Warner Robins to the McDonnell plant in St. Louis, Missouri) had not performed the review. Consequently, the SPM was not in compliance with the applicable Federal and Air Force regulations that require such review. Specifically, the DoD Federal Acquisition Regulation Supplement No. 6, "DoD Spare Parts Breakout Program," requires the identification, selection, and screening of parts for breakout as early as possible to determine the technical and economic considerations of the opportunities for breakout to competition or direct purchase. Further, AFLC Regulation 800-9, Chapter 35-4, states that the SPM is responsible for ensuring that initial spare parts breakout is included in the provisioning strategy.

Our discussions with the Cadre disclosed that even though McDonnell verbally recommended breakout of the initial spare parts, the Cadre felt that a component breakout analysis was inappropriate. His cited reasons were the TISS's instability and that the services of McDonnell and Honeywell were necessary to meet the Air Force's delivery requirements. However, the Cadre could provide no documentation to support this statement. Furthermore, the Cadre did not document the rationale for deviating from the contractor's recommendations for breakout and did not comply with AFLC Regulation 800-9, Chapter 35-3, "Breakout Procedures For Initial Spares." This Regulation states that breakout will be based on contractor recommendations. The Regulation also states that, "Rationale for deviations from contractor recommendations must be documented by item, approved at division level. Documentation must be retained in the provisioning activity contract file."

Actions Taken By Warner Robins. On July 27, 1989, a meeting was held at Warner Robins to resolve the problem of Honeywell pass-through items for the TISS's initial spare parts. The organizations that participated were the following.

- Warner Robins
- McDonnell
- NAVPRO/Administrative Contracting Officer
- San Antonio Air Logistics Center (ALC)
- Honeywell

On August 4, 1989, McDonnell provided Warner Robins with a list titled, "Open Items List of Honeywell Supplied Made By Other Vendors Contract F33657-86-C-2001." The list included both pass-through parts and parts that Honeywell actually works on for the TISS.

On August 7, 1989, Warner Robins ALC issued a partial stop work notice to McDonnell. The notice directed McDonnell to immediately stop work on the items identified on McDonnell's list of August 4, 1989. However, the notice was canceled the next day because the McDonnell list included both pass-through and

nonpass-through parts. Although McDonnell modified the list to include only pass-through parts, Warner Robins appeared reluctant to issue an amended partial stop work notice.

On August 22, 1989, the day after the audit staff arrived, the amended partial stop work notice was issued. This notice concerned the two categories of parts shown below.

- Category 1 - items on contract with McDonnell, but not ordered from Honeywell.

- Category 2 - items on contract with McDonnell and on purchase order with Honeywell, but which Honeywell had not placed on order to the original manufacturers.

On September 5, 1989, Warner Robins issued another partial stop work order. That order concerned the additional two categories of parts shown below.

- Category 3 - items that Honeywell had placed on order with the original manufacturer and that were in production.

- Category 4 - items that had been completed by the original manufacturer and delivered to Honeywell.

On September 18, 1989, Warner Robins proposed to procure the spare parts by:

- canceling all McDonnell orders for Honeywell items in Categories 1 and 2 and procuring the items directly from the original manufacturer;

- taking over management and payment of all contracts held by either Honeywell or a subvendor for items in Category 3; and,

- taking over management and payment of some of the contracts held by either Honeywell or a subvendor for items in Category 4, depending upon the status of work.

Effect of Stop Work Orders. Before our December 14, 1989, follow-up visit to Warner Robins, all of the orders for initial spare parts in Categories 1 and 2 had been canceled, and almost all spare parts had been broken out to the original manufacturer. Our review of four of the larger dollar value items, broken out by Warner Robins, disclosed that the combined markups of Honeywell and McDonnell were in the 400-percent range. The markups are consistent with the markups disclosed by the DCASPRO Honeywell memorandum of June 21, 1989, and this audit. However, there was a low dollar spare part price proposal in which McDonnell's price was about 11,300 percent higher than the original manufacturer's quoted price. The following are examples of the savings accumulating to the Government because of

the breakout of pass-through spare parts to the original manufacturer. Although some of these savings would have been realized during the normal negotiation process, these examples substantiate the importance of performing a component breakout analysis.

Savings Accumulated from Spare Part Breakout. Warner Robins negotiated contract F09603-90-C-0444 with N.H. Research of Irvine, California, on November 16, 1989, for six TISS contract initial spare parts that had been canceled by the stop work orders. Warner Robins was able to negotiate a contract price of * a savings of * on the McDonnell quote of *. Thus, the Air Force will avoid a markup of * percent on the original manufacturer's quote.

McDonnell proposed a price of * to Warner Robins for 11 spare parts and supporting equipment. The manufacturer, * quoted Warner Robins a price of * for all the equipment, a savings of *. Thus, the Air Force will avoid a markup of about * percent on the manufacturer's quote.

McDonnell proposed a price of * to Warner Robins for power supply and related cable assemblies. The manufacturer quoted a price of *. The difference between McDonnell's quote and the price from the manufacturer equals a savings of *.

Procurements of low dollar items showed substantially higher markups. * submitted a quote to Warner Robins of * for 15 pressure gauges. McDonnell had proposed a price of * for the same 15 pressure gauges. The McDonnell price was marked up * percent from the manufacturer's quoted price.

In another example of low dollar items, McDonnell proposed a total price of * for 25 circuit breakers. In response to a Warner Robins purchase request, * the manufacturer, quoted a price of *. The * quote revealed a * percent markup in McDonnell price.

We computed the total cost of not performing a breakout analysis before the issuance of orders for initial spare parts as approximately \$12.3 million. The following paragraph discusses the elements of the \$12.3 million. Additional details are shown in Appendix C.

Based on McDonnell's proposed prices, we estimated that a breakout of pass-through initial spare parts (Categories 1 (\$4.127 million) and 2 (\$8.146 million) only) for the TISS, as of the date the final stop work order was issued (September 5, 1989), would result in monetary benefits of approximately \$12.3 million. The \$12.3 million is equal to the difference between the original manufacturer's cost and McDonnell's price.

McDonnell's price includes a Honeywell markup of about * percent plus a McDonnell markup of about * percent. The Honeywell markup was taken from the June 21, 1989, DCASPRO memorandum discussed earlier in this report. The McDonnell markup was based on data obtained from the NAVPRO at McDonnell.

We also estimated that the Air Force is still potentially liable (as of September 5, 1989) for approximately \$7.2 million for items in Categories 3 and 4. Items in Categories 3 and 4 are items that were already ordered by Honeywell from the manufacturer. The \$7.2 million includes Honeywell's and McDonnell's markups, computed using the same methodology described in the preceding paragraph.

Honeywell Standard Cost Accounting System. Since the mandatory breakout analysis was not performed and the Air Force elected to buy the items through McDonnell who bought them from Honeywell, the cost of the items was determined by Honeywell's standard cost accounting system.

On February 23, 1988, the Defense Contract Administration Service Plant Representative Office (DCASPRO) at Honeywell asked the resident Defense Contract Audit Agency (DCAA) auditor to review Honeywell's production support practice and evaluate its compliance with Cost Accounting Standard (CAS) 418, "Allocation of Direct and Indirect Costs." On March 18, 1988, the DCAA auditor responded placing particular emphasis on the materiality of the costs involved. The auditor concluded that an accounting change in Honeywell's standard cost accounting system did not appear to be warranted. He essentially concluded that Honeywell was in technical noncompliance with CAS 418, but the noncompliance issue lacked materiality. This conclusion was based on the following two points. First, neither the Government nor Honeywell had performed a definitive study of what portion, if any, of the production support costs actually applied to pass-through parts. Second, Honeywell's estimated volume of pass-through spare parts was minimal.

On March 9, 1988, the ACO determined that Honeywell's standard cost accounting system was in noncompliance with CAS 418 because Honeywell applied the same production support costs to "pass-through" spare parts as it applied to items that it was producing itself.

On June 21, 1989, the DCASPRO at Honeywell issued a memorandum to the ACO at the NAVPRO in the McDonnell plant. The ACO was informed of the details of the long-standing concerns regarding the Honeywell practice of applying production support costs to "pass-through" parts. The DCASPRO's Financial Services Branch had analyzed each proposal received for the TISS's initial spare parts since the beginning of FY 1989. Pass-through parts constituted a significant part of the total initial spare parts orders. The DCASPRO memorandum disclosed that because the Air Force continued to buy the items through Honeywell rather than

buy directly from the originating vendor, the Air Force was paying prices that were approximately five times higher than prices that could be obtained from the originating vendor.

The DCASPRO memorandum also noted that Honeywell did not comply with the Defense Federal Acquisition Regulation Supplement 215.970-1, "Procedures for Establishing a Profit Objective," in calculating profit, because Honeywell included general overhead in its profit base. As a result, Honeywell's actual profit rate was * percent, not the * percent listed in the proposal.

On July 24, 1989, the DCASPRO at Honeywell issued the results of a technical evaluation concerning production support. The technical evaluation concluded that applying production support costs to pass-through spare parts was unjustified and unreasonable. The DCASPRO recommended that Honeywell be solicited for a proposal covering only the work actually performed in the procurement of pass-through or no value added parts. The DCASPRO report also strongly recommended that the Government procure the spare parts directly from the originating vendor.

On August 8, 1989, the DCAA issued audit report 3751-9A442102, which stated that Honeywell was in noncompliance with CAS 418.20(c) and 418.50(b)(2). CAS 418.20(c) requires that there be a reasonable, beneficial, or causal relationship of the pooled production support costs to cost objectives. The DCAA stated that since Honeywell's production control comprises only about 25 percent of the full production support costs, a beneficial or causal relationship did not exist. The other portions of production support are design engineering, production engineering, quality engineering, and tooling. CAS 418.50(b)(2) states:

An indirect cost pool is not homogeneous if the costs of all significant activities in the cost pool do not have the same or a similar beneficial or causal relationship to cost objectives and if the costs were allocated separately, the resulting allocation would be materially different.

The DCAA stated that, in its opinion, the separate allocation of a partial production support cost pool to pass-through parts would be materially different. The DCAA based its opinion on the conclusion of the DCASPRO's July 24, 1989, technical evaluation concerning production support, as well as the significant volume of pass-through parts in the TISS (for more details see Appendixes A and B).

Honeywell's allocation method for production support costs is now the subject of a legal case before the Armed Services Board of Contract Appeals

Production Contract. The F-15 System Program Office (SPO) did not perform a component breakout review for the TISS production contract. DoD Federal Acquisition Regulation Supplement, Subpart 217.7202-3, "Responsibility for Component Breakout Selection, Review, and Decision," states:

The program manager shall be responsible for: (1) earmarking as susceptible to breakout those components potentially conforming to the criteria and policy; (2) conducting the breakout review and evaluation described in 217.7202-4; (3) making the decision whether or not to break out the component; (4) preparing records explaining such decisions in compliance with 217.7202-5.

Also, the AFSC/AFLC Regulation 800-31, Attachment 2, "Government Furnished Equipment/Contractor Furnished Equipment Selection Process," requires a component breakout review of all contractor furnished equipment. This Regulation states:

Review all contractor furnished equipment items, including those on the master contractor furnished equipment list, periodically to determine if they should be converted to Government furnished equipment. Conduct this review at least annually before preparing the budget or before each successive acquisition.

However, the TISS Program Manager stated that he did not perform the mandatory component breakout analysis.

Action Taken by the F-15 SPO. The June 21, 1989, memorandum issued by the DCASPRO at Honeywell to the NAVPRO at McDonnell disclosed large markups by Honeywell on pass-through parts. The NAVPRO sent the F-15 SPO a copy of the same memorandum early in July 1989. The Deputy Director of F-15 Contracting in the SPO told us that officials at the SPO did not think that the \$79.2 million production contract warranted a component breakout analysis, even though the memorandum disclosed Honeywell's large markups on pass-through items. The Deputy Director also stated that officials at the SPO were aware of the controversy over the pricing of the TISS initial spares. However, the SPO officials did not feel that the matter provided sufficient reason to suspend TISS production price negotiations in order to perform a component breakout analysis. The Deputy Director justified the position taken by the SPO officials by stating that Honeywell had not been disbarred from contracting with the Government nor cited for an accounting system that did not comply with accepted Cost Accounting Standards. The CAS 418 noncompliance had been issued almost 15 months earlier by the DCASPRO ACO.

On September 28, 1989, we requested that the DCASPRO at Honeywell perform a price analysis and technical evaluation for no value added parts of the F-15 TISS production contract. The analysis and evaluation would help us to determine whether the alleged

overpricing would affect the production contract. We listed 59 selected parts to be evaluated; 31 of the parts showed only material costs in the Honeywell proposal, and the remaining 28 parts showed low labor costs.

On November 24, 1989, the DCASPRO at Honeywell issued its technical evaluation. The technical evaluation responded to one of our main concerns: what problems would the DCASPRO anticipate if Honeywell did not procure the parts, and instead provide the parts as Government furnished material? The technical evaluation stated:

The Government supplying wrong, late, or defective parts should be the only real problem with the Government furnishing high dollar P/Ns [Part Numbers] as GFE [Government Furnished Equipment]. However, Honeywell could blame most, if not all, production problems on the GFM [Government Furnished Material]. Whenever there was a schedule problem, it could be blamed on the lack of GFE [Government Furnished Equipment], or the breakdown of previously supplied GFE [Government Furnished Equipment].

In addition, the technical evaluation stated that there were no pass-through parts in the TISS production contract.

On December 19, 1989, the DCASPRO at Honeywell issued a supplemental pricing report. The supplemental pricing report stated:

The conclusions drawn by the DCASPRO Engineering and concurred to by the Analyst are that Honeywell product support costs are allowable and allocable on the F-15 TISS production contract and that vendor parts on this production contract are not good candidates for component breakout....

However, the pricing analyst calculated the effect of parts provided to the Government at cost versus the proposed method of having the prime contractor procure the parts from its subcontractor, Honeywell. This calculation was based on the list of 31 part numbers previously identified as showing only material costs. The pricing report concluded:

The U.S. Air Force could have saved approximately \$20,146,854 on the subject production contract if each of the 31 parts identified in the previous review were directly purchased from the source vendors. This scenario assumes that component breakout analysis was undertaken and the results were favorable for pursuing direct purchasing. However, given our findings, the parts reviewed are not breakout candidates nor is the

potential savings of \$20,146,854 realistic, attainable, or likely since each piece part and subassembly belongs to a system as an end item that is testable as a sum of its components.

The \$20 million figure cited above is based on the assumption that 12 systems would be procured under the production contract. We note that the technical evaluation and pricing report concluded that it was not feasible to perform a component breakout of the TISS production. However, we believe that the magnitude of the potential contract mentioned in the pricing report, plus possible follow-on contracts, reinforces our conclusion that a component breakout analysis should have been performed before the production contract was awarded.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, Warner Robins Air Logistics Center require the F-15 System Program Manager to:

a. Document and report to him on the outcome of the initial spare parts breakout analysis required by the Defense Federal Acquisition Regulation Supplement No. 6 "DoD Spare Parts Breakout Program," and Air Force Logistics Command Regulation 800-9, "Air Force Provisioning Policies and Procedures," Chapter 35, "Breakout Procedures for Initial Spares," or provide the rationale for not performing an analysis before the negotiation of a contract for initial spare parts that meet the DoD Components' and field activities' annual buy thresholds for breakout screening.

b. Perform and document the initial spare parts breakout analysis as required by the Defense Federal Acquisition Regulation Supplement No. 6 and Air Force Logistics Command Regulation 800-9, Chapter 35, for the Tactical Electronic Warfare System Intermediate Support System initial spare parts procurement.

2. We recommend that the Air Force Logistics Command and the Air Force Systems Command:

a. Adjust the contract price or cost allowance, as appropriate, on the TISS and on all prior contracts with Military Avionics Division of Honeywell, Inc. (Honeywell) that contained Federal Acquisition Regulation Cost Accounting Standards Clauses 52.230-3, "Cost Accounting Standards," and 52.230-4, Administration of Cost Accounting Standards," if the Armed Services Board of Contract Appeals finds that the Government should not have been subject to Honeywell's overhead rates for no-value added items. The adjustment should provide for recovery of the overcharges to the Government, together with interest thereon computed at the rate determined by the Secretary of the Treasury pursuant to Public Law 92-41, 85 Statute 97, from the time the payments by the Government were made to the time the adjustments are effected.

b. Include the Federal Acquisition Regulation Cost Accounting Standards Clauses 52.230-3 and 52.230-4 in all subsequent contracts or subcontracts with Honeywell.

3. We recommend that the Tactical/Airlift Program Executive Officer require the F-15 System Program Office to:

a. Document and report to him on the outcome of all component breakout analyses required by the Defense Federal Acquisition Regulation Supplement 217.7202-5, "Records and Review Procedures," and Air Force Systems Command Regulation 800-31, "Government-Furnished Equipment/Contractor-Furnished Equipment (GFE/CFE) Selection Process, GFE Acquisition and GFE Management," or the rationale for not performing an analysis, before the negotiation of:

(1) developmental procurements having a total contractual cost estimated at \$2 million or more and

(2) production procurements having a contractual cost estimated at \$15 million for all years or \$5 million for any single fiscal year.

b. Perform and document the component breakout analysis as required by the Defense Federal Acquisition Regulation Supplement 217.7202-5, and Air Force Systems Command Regulation 800-31 for the Tactical Electronic Warfare Intermediate Support Systems production procurement.

MANAGEMENT COMMENTS

The Principal Deputy Assistant Secretary of the Air Force (Acquisition) nonconcurred with draft Recommendations 1.a. and 3.a. He stated that, "The System Program Manager is charged with the responsibility for performing and documenting the required analyses and this requirement, if followed, is sufficient." He felt that the additional reporting requirements to the Air Force Logistics Command and the Air Force Systems Command levels were unnecessary.

The Principal Deputy nonconcurred with the draft report Recommendation 2. He stated that, "Adding a savings clause does not provide the Government with any protection not already included in the CAS Clauses (FAR [Federal Acquisition Regulation] 52.230-3 through 52.230-6)."

The Principal Deputy concurred with Recommendations 1.b. and 3.b., that initial spares and component breakout analyses should be performed, establishing a target completion date of October 1990 for the component breakout analysis.

The Principal Deputy neither concurred nor nonconcurred with draft report potential monetary benefits resulting from the audit

stating ". . . we cannot concur/nonconcur based on the limited information available in the draft report." The full text of the Principal Deputy's comments is in Appendix D.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

We agree with the Air Force statement in response to Recommendation 1.a. and 3.a. that the requirement, if followed, should be sufficient. However, the System Program Manager and the System Program Office have not performed and documented the mandatory initial spares and component breakout analyses. Our audit disclosed that the F-15 System Program Manager has not fully corrected long-standing deficiencies in the F-15 component breakout program. We believe that there is a definite need for some type of internal control that will ensure the System Program Manager and the System Program Office perform the initial spares and component breakout analyses as required by regulation. Our audit showed that the existence of regulations did nothing to ensure that the analyses were performed. However, based on the Air Force's comments, and subsequent discussions with personnel from the Directorate of Contracting and Manufacturing Policy, Office of Assistant Secretary of the Air Force (Acquisition), we redirected Recommendations 1. and 3. to the Commander, Warner Robins ALC and the Tactical/Airlift Program Executive Officer, respectively. Accordingly we ask that the Commander, Warner Robins ALC and the Tactical/Airlift Program Executive Officer provide comments on Recommendations 1. and 3., respectively.

The Air Force's planned actions in response to Recommendations 1.b. and 3.b. were responsive to the finding and recommendations. However, the Principle Deputy did not establish a target completion date for Recommendation 1.b., and we are asking that he do so in response to the final report.

Based on information provided by the Air Force, we have revised Recommendation 2. The recommendation originally provided for the Air Force Logistics Command to direct all Air Logistics Centers to include reopener clauses on any contracts that include Honeywell's Military Avionics Division (Honeywell) as a supplier until a Board decision has been issued. We revised the recommendation to require that the Air Force Logistics Command and Air Force Systems Command adjust the contract price on the TISS and prior contracts with Honeywell should the Board find that the Government should not have been subject to Honeywell's overhead rates for no-value added items and to include the appropriate Cost Accounting Standards Clauses in subsequent contracts or subcontracts with Honeywell. We ask that the Air Force comment on the revised recommendation in response to the final report.

We disagree with the Air Force's position that the draft report lacked detail regarding potential monetary benefits. Appendix C of the draft report provided a detailed schedule of how the potential monetary benefits were computed. Further, we provided

details on our computation of potential monetary benefits during exit conferences held in December 1989 with Air Force personnel at Warner Robins ALC; San Antonio ALC; Headquarters, Air Force Systems Command; and Headquarters, Air Force Logistics Command, before issuance of our draft report. Warner Robins provided us with the source schedule of spare parts which tie to the "McDonnell Price" on Schedule C. This source schedule was contained in a Warner Robins letter of August 30, 1989 to McDonnell Douglas Corp. We believe that the Air Force possesses sufficient information regarding the potential monetary benefits to reach a conclusion. Therefore, we ask that the Air Force provide a concurrence or nonconcurrence with the potential monetary benefits in responding to the final report.

Also, the Air Force did not comment on the internal control weaknesses. We therefore ask that the Air Force state its position on the internal control weaknesses in responding to the final report.

WORK SUBCONTRACTED FROM MCDONNELL AIRCRAFT COMPANY ^{1/}
TO HONEYWELL'S MILITARY AVIONICS DIVISION

| <u>Calendar Year</u> | <u>Pass-Through</u> ^{2/} | <u>Non- Pass-Through</u> | <u>Total</u> |
|--------------------------|------------------------------------|------------------------------|-------------------------------------|
| 1985 | \$ 2,242 | \$ 103,128,750 | \$ 103,130,992 |
| 1986 | 0 | 16,386,025 | 16,386,025 |
| 1987 | 11,749 | 7,812,368 | 7,824,117 |
| 1988 | 0 | 11,901,735 | 11,901,735 |
| 1989 ^{3/} | <u>14,887,677</u> | <u>20,908,567</u> | <u>35,796,244</u> |
| Total | <u>\$ 14,901,668</u> ^{4/} | <u>\$ 160,137,445</u> | <u>\$ 175,039,113</u> ^{5/} |

^{1/} Data obtained from McDonnell Aircraft Company through the Naval Plant Representative Office, St. Louis.

^{2/} Pass-through work is defined as parts to which no or little value is added by Honeywell, Inc., and which could be procured directly from the Honeywell vendor.

^{3/} January 1 to June 30, 1989.

^{4/} Total pass-through work performed by Honeywell represented 8.5 percent of all subcontracted work totaling \$175.0 million from January 1, 1985, to June 30, 1989. As shown in Appendix B, the bulk of the pass-through work resulted from the Tactical Electronic Warfare System Intermediate Support System spares procurement.

^{5/} Total Honeywell Military Avionics Division subcontract work performed from January 1, 1985, to June 30, 1989, on 21 DoD prime contracts (11 Air Force, 8 Navy, and 2 Army) with McDonnell Aircraft Company.

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TACTICAL ELECTRONIC WARFARE SYSTEM INTERMEDIATE SUPPORT SYSTEM
(TISS) WORK SUBCONTRACTED FROM MCDONNELL AIRCRAFT COMPANY TO
HONEYWELL'S MILITARY AVIONICS DIVISION 1/

| <u>Calendar</u> <u>Year</u> | <u>Pass-Through</u> 2/ | <u>Non</u> <u>Pass-Through</u> | <u>Total</u> |
|--------------------------------|-------------------------|-----------------------------------|-----------------------|
| 1985 | \$ 0 | \$ 84,798,069 | \$ 84,798,069 |
| 1986 | 0 | 15,338,589 | 15,338,589 |
| 1987 | 0 | 0 | 0 |
| 1988 | 0 | 3,258,870 | 3,258,870 |
| 1989 3/ | <u>14,874,157</u> | <u>9,814,734</u> | <u>24,688,891</u> |
| Total 4/ | <u>\$ 14,874,157</u> 5/ | <u>\$ 113,210,262</u> | <u>\$ 128,084,419</u> |

1/ This information was obtained from McDonnell Aircraft Company through the Naval Plant Representative Office, St. Louis.

2/ Pass-through is defined as TISS parts with little or no value added by Honeywell, Inc. These parts could be obtained directly from Honeywell vendors.

3/ January 1 to June 30, 1989.

4/ TISS related work performed at Honeywell's Military Avionics Division from January 1, 1985, to June 30, 1989, based on two DoD prime contracts with McDonnell Aircraft Company; one was for TISS full-scale development, and one was for TISS spare parts. The time period does not include any work performed on the TISS production phase contract.

5/ All historical pass-through work on TISS resulted from the spare parts contract. The \$14.87 million in pass-through work represents 11.6 percent of \$128.1 million total TISS work performed at Honeywell's Military Avionics Division.

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SUMMARY OF MARKUPS
OF NO VALUE ADDED PASS-THROUGH SPARE PARTS FOR THE
TACTICAL ELECTRONIC WARFARE SYSTEM INTERMEDIATE SUPPORT SYSTEM
AS OF SEPTEMBER 5, 1989
(\$\$ IN THOUSANDS)

| Vendor Pricing | Spare Parts Category | | | | 1/ Total |
|---|----------------------|-----------------|-----------------|---------------|------------------|
| | 1 | 2 | 3 | 4 | |
| Original ^{2/} Vendor | \$ * | \$ * | \$ * | \$ * | \$ * |
| Honeywell ^{3/} Markup (* percent) | * | * | * | * | * |
| Honeywell ^{4/} Price | \$ * | \$ * | \$ * | \$ * | \$ * |
| McDonnell ^{5/} Markup (* percent) | * | * | * | * | * |
| McDonnell ^{6/} Price | \$ * | \$ * | \$ * | \$ * | \$ * |
| Total ^{7/} Markup | <u>\$ 4,127</u> | <u>\$ 8,146</u> | <u>\$ 6,921</u> | <u>\$ 308</u> | <u>\$ 19,502</u> |

1/ Definitions of spare parts categories:

Category 1: Parts (113 line items) that Warner Robins Air Logistics Center has placed on order with McDonnell Aircraft Company, but that McDonnell has not placed on order with Honeywell, Inc. Warner Robins has broken these items out to the original manufacturers. Estimated savings as of the date of the stop work order (September 5, 1989) is \$4.1 million.

Category 2: Parts (291 line items) that Warner Robins has placed on order with McDonnell and that McDonnell has placed on order with Honeywell. However, Honeywell has not placed an order with the original manufacturer. Warner Robins has broken these items out to the original manufacturers. Estimated savings as of the date of the stop work order (September 5, 1989) is \$8.1 million.

SUMMARY OF MARKUPS
OF NO VALUE ADDED PASS-THROUGH SPARE PARTS FOR THE
TACTICAL ELECTRONIC WARFARE SYSTEM INTERMEDIATE SUPPORT SYSTEM
AS OF SEPTEMBER 5, 1989
CONTINUED

Category 3: Parts (209 line items) that Honeywell has placed on order with the original manufacturer and that were considered work in process at the time of the September 5, 1989, stop work order. Warner Robins was undecided on the status of these items. If the Air Force accepts delivery of these items, it may incur an unrecoverable loss of \$6.9 million.

Category 4: Parts (39 line items) that have been completed by the original manufacturer and delivered to Honeywell as of the September 5, 1989, stop work order. The Air Force will incur unrecoverable costs of \$308,000 on these items.

2/ Vendor price to Honeywell estimated by dividing the Honeywell price by * (figure is equal to a * percent Honeywell markup plus 1.00).

3/ Average Honeywell markup of * percent as determined by the Defense Contract Administration Services Plant Representative Office at Minneapolis in a June 21, 1989, memorandum to the F-15 Administrative Contracting Officer.

4/ The Honeywell price to McDonnell was estimated by dividing the McDonnell price by * (figure is equal to a * percent McDonnell markup plus 1.00).

5/ The McDonnell * -percent markup was obtained from the Naval Plant Representative Office St. Louis. It is an Administrative Contracting Officer estimate.

6/ The McDonnell price to the Air Force of no value added pass-through parts from Honeywell as of September 5, 1989.

7/ Total markup dollar amounts were determined by adding Honeywell plus McDonnell markup dollars.

*Proprietary Data Deleted

APPENDIX C

Page 2 of 2



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

MAY 17 1990

OFFICE OF THE ASSISTANT SECRETARY

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: DOD/IG Draft Report on the Audit of DOD Hotline
Allegation of Overpricing of F-15 Spare Parts
(Project No. 9CD-8007) - INFORMATION MEMORANDUM

This is in reply to your memorandum for Assistant Secretary of the Air Force (Financial Management and Comptroller) requesting comments on the findings and recommendations made in subject report.

Recommendation 1 is for Air Force Logistics Command to require the F-15 System Program Manager to document and report to Command on the outcome of component breakout analyses for the Tactical Electronic Warfare System Intermediate Support System (TISS) initial spare parts procurement as well as other buys that meet the annual buy thresholds for breakout screening. We concur with the requirement to perform the required analyses. However, the term Component Breakout, as used in the report, is not appropriate. The term that applies is "Initial Spares Breakout" and procedures contained in AFLCR 800-9 are adequate but were not complied with in this case. We do not, however, concur with requiring an additional reporting requirement to the Command level. The System Program Manager is charged with the responsibility for performing and documenting the required analyses and this requirement, if followed, is sufficient.

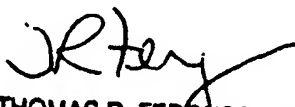
Recommendation 2 is that AFLC direct the ALCs to include reopener clauses in contracts with Military Avionics Division, Honeywell, until the CAS418 violation has been settled. We do not concur with this recommendation. Adding a savings clause does not provide the Government with any protection not already included in the CAS clauses (FAR 52.230-3 through 52.230-6). In addition, current DMR initiatives advocate elimination of all duplicative clauses and requirements which do not add value in order to streamline government contracts.

Recommendation 3 is that Air Force Systems Command require the F-15 System Program Office to document and report on the outcome of component breakout analyses on the TISS and before negotiation of developmental procurements over \$2 million and production procurements over \$15 million total or \$5 million for any one fiscal year. We concur with performing an analysis on the

TISS program and on other programs as required by DFARS and AFSCR 800-31. Again, however, as discussed under recommendation 1, we do not concur with imposing an additional reporting requirement to the Command level. We estimate completion of the TISS analysis by October 1990; however, as discussed on pages 24-25 of the audit report, the probability is that breakout will be impractical.

10-11

With regard to the potential monetary benefits, we cannot concur/nonconcur based on the limited information available in the draft report.


THOMAS R. FERGUSON, JR., Lt Gen, USAF
Principal Deputy, Assistant Secretary
of the Air Force (Acquisition)

SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT

| <u>Recommendation Reference</u> | <u>Description of Benefit</u> | <u>Amount and/or Type Of Benefit</u> |
|-------------------------------------|---|--|
| 1.a. | Internal control. Air Force Logistics Command to monitor the implementation of Recommendation 1.b. below. | Nonmonetary. |
| 1.b. | Internal Control. System Program Manager to perform a breakout analysis of Tactical Electronic Warfare System Intermediate Support System initial procurement. spares. As of September 5, 1989, additional potential cost avoidance of \$7.2 million for FY 1989 and FY 1990 procurements spare parts pending the definitization of negotiations. | \$12.3 million cost avoidance as of September 5, 1989, for FY 1989 and initial Tactical Electronic Warfare System Intermediate Support System (TISS) |
| 2. | Internal control. Air Force Logistics Command and the Air Force Systems Command to adjust the contract price or cost allowance, as appropriate, on the | Monetary. Not quantifiable. We do not know the number or amounts of contracts that will be awarded or that have been awarded. |

SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT CONT'D

| <u>Recommendation Reference</u> | <u>Description of Benefit</u> | <u>Amount and/or Type Of Benefit</u> |
|-------------------------------------|---|--|
| | | TISS and on all prior contracts with Military Avionics Division of Honeywell, Inc. (Honeywell) that contained Federal Acquisition Regulation Cost Accounting Standards Clauses 52.230-3 and 52.230-4 if the Armed Services Board of Contract Appeals finds that the Government should not have been subject to Honeywell's overhead rates for no value added items. The adjustment should provide for recovery of the overcharges to the Government, together with interest. |
| 3.a. | Internal control. Air Force Systems Command to monitor the implementation of Recommendation 3.b. | Nonmonetary. |
| 3.b. | Internal control. System Program Office to perform a breakout analysis of TISS production procurements. | Monetary. Not quantifiable. Cannot predict Contracting Officer's final decision. |

ACTIVITIES CONTACTED OR VISITED

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Washington, DC

Department of the Navy

Naval Plant Representative Office - McDonnell Aircraft Company,
St. Louis, MO

Department of the Air Force

Assistant Secretary of the Air Force (Acquisition),
Washington, DC

Assistant Secretary of the Air Force (Financial Management and
Comptroller), Washington, DC

Air Force Systems Command, Andrews Air Force Base, MD

Air Force Logistics Command, Wright-Patterson Air Force Base, OH

Air Force Systems Command, Wright-Patterson Air
Force Base, OH

Logistics Support Cadre, St. Louis, MO

San Antonio Air Logistics Center, Kelly Air Force Base, TX

Warner Robins Air Logistics Center, Warner Robins Air
Force Base, GA

Defense Logistics Agency

Director, Defense Logistics Agency, Alexandria, VA

Defense Contract Administration Services Plant Representative
Office - Honeywell, Inc., Minneapolis, MN

Defense Contract Administration Services Region - St. Louis, MO

Defense Contract Audit Agency

Director, Defense Contract Audit Agency, Alexandria, VA

Defense Contract Audit Agency Field Location:

Resident Office - Honeywell, Inc., Minneapolis, MN

Contractors

Honeywell Military Avionics Division, Minneapolis, MN

McDonnell Aircraft Company, St. Louis, MO

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AUDIT TEAM MEMBERS

David K. Steensma

Paul J. Granetto,
James Peterson,
Michael Perkins,
Benjamin Mehlman,

Director, Contract
Management Directorate
Program Director
Project Manager
Team Leader
Team Leader

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FINAL REPORT DISTRIBUTION

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Air Force Systems Command
Aeronautical Systems Division
Tactical/Airlift Program Executive Office
Warner Robins Air Logistic Center

Department of the Navy

Naval Air Systems Command

Other Defense Activities

Defense Logistics Agency
Defense Plant Representative Office, Honeywell, Inc.
Defense Plant Representative Office, McDonnell Douglas
Corporation

Non-DoD

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information
Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

INTERNET DOCUMENT INFORMATION FORM

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Arlington, VA 22202-2884

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